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OFFICE OF REPORTS AND ESTIMATES

TRANSPORTATION GROUP

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SECTION I. SUMMARY OF TRENDS AND DEVELOPMENTS

Tanker construction remains at a very high level, despite the continuing decline in tanker freight and charter rates since early 1948. Construction commitments already undertaken, moreover, indicate that tanker construction will continue active for some time to come. Continuation of the concurrent world trends of increased tonnage and decreased rates will increase the prospects for some form of government sponsorship in European countries and might eventually lead to large scale scrapping, which would adversely affect the strategic advantage accruing to the West from possession of a sizeable reserve tanker capacity. (Item No. 1, B)

An incorrect report of US intentions regarding financial assistance has created confusion in Panama with respect to the early resumption of construction on the Inter-American Highway. In June, 1949, the Panamanian Foreign Minister issued a statement that the US Congress had approved expenditures to cover two-thirds of the cost of this highway through Central America. Actually, the bill for US participation in this construction has not yet been introduced in Congress. In spite of the foregoing circumstances, Panama addressed a note to the US in July, 1949, proposing that the US complete the Inter-American Highway from Panama City to the Costa Rican border, as a substitute for a US commitment to bridge the Panama Canal at Balboa or to construct a tunnel. (Item No. 2, B)

In spite of the recent Cabinet action in Paris, approving French participation in the construction of an eight-mile highway tunnel under Mont Blanc, it appears almost certain that the tunnel, if constructed, actually will be located under the Grand St. Bernard pass on the Italian-Swiss border. French-Swiss rivalry, however, increases the chances that one of the projects will be realized and that trans-Alpine road connections west of the Brenner pass, which are interrupted in the winter, will be improved greatly by a first class all-weather highway. (Item No. 3, B)

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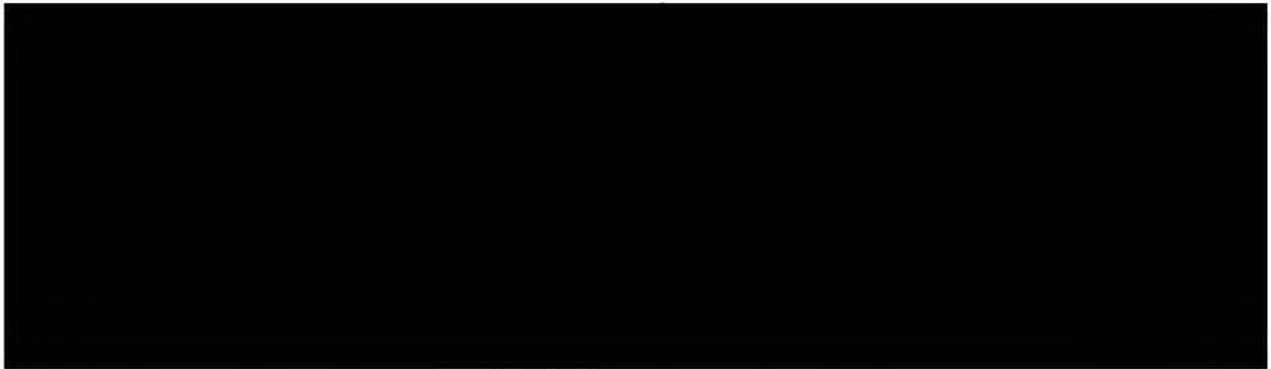
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CONFIDENTIAL

-2-

The Czechoslovak press and radio have engaged in unprecedented attacks upon the International Civil Aviation Organization (ICAO) which may foreshadow exploitation of ICAO as a propaganda forum, although it is unlikely that Czechoslovakia will choose to sacrifice the benefits of its ICAO membership by withdrawal from the organization. Meanwhile, despite a continued active and aggressive civil aviation policy, Czechoslovakia is making no headway in countering Western measures to prevent expansion of its foreign air services to the Near East. (Item No. 4, B)

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The Chinese Communists, still attempting to obtain air access to Hong Kong from Shanghai, have come forward with a proposal for a "People's Aviation Company of China" to be operated by the US Northwest Airlines, despite US action to break off negotiations by US airline representatives with the Communists. In view of the continuing Nationalist blockade and arbitrary Communist practices, restoration by US airlines of air services in Communist-held China appears remote.

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-3-

SECTION II. CURRENT DEVELOPMENTS

SURFACE TRANSPORTATION

1. Tanker construction remains at a very high level, despite the continuing decline in tanker freight and charter rates since early 1948. In the period from November, 1948 through May, 1949, for example, the world fleet of tankers increased by more than one million deadweight tons (See accompanying table). As a result, the world tanker fleet has now reached an all-time high of almost 25 million tons, over 50 percent more than the prewar (1939) tonnage level. Construction commitments already undertaken, moreover, indicate that tanker construction will continue active for some time to come.

By depressing tanker rates, increased availability of tanker tonnage affects principally those owners whose operating costs are highest and who are therefore unable to compete in a saturated world market at the low prevailing rates. The concurrent world trends of increased tonnage and decreased rates have already caused over one million deadweight tons of tankers to be laid up, almost all of which is US-owned. Some Scandinavian vessels have also been laid up, however, and continuation or aggravation of present conditions in the world tanker market will inevitably increase the prospects for some form of government sponsorship, such as heavy subsidization or outright nationalization. A prolonged depression in the tanker market, moreover, could foreseeably generate irresistible domestic pressures within various Western European nations, first to lay up and eventually to scrap large quantities of tanker tonnage. The result, particularly if the US were also to scrap any significant portion of its idle tonnage, would be a substantial reduction in the Western transport capacity for petroleum products and loss of the strategic advantage accruing from possession of a sizeable reserve tanker capacity.

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-4-

THE WORLD MERCHANT TANKER FLEET, 1948-1949

(Deadweight Tonnage of Vessels Over 500 Gross Tons)

<u>Country</u>	<u>1 Nov., 1948</u>	<u>1 May, 1949</u>
U. S.	8,623,629	8,550,394
U. K.	5,755,817	5,869,406
Norway	2,724,995	3,067,871
Panama	2,244,061	2,377,444
France	762,008	840,961
Italy	778,461	792,242
Netherlands	659,586	672,921
Sweden	533,397	546,011
USSR	167,611	169,334
Other flags	1,632,961	2,022,715
World Total	23,882,526	24,909,299

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2. An incorrect report of US intention regarding financial assistance has created confusion with respect to the early resumption of construction on the Inter-American Highway. Following the visit of a US Public Roads Administration official in June, 1949, the Panamanian Foreign Minister issued a statement that the US Congress had approved expenditures to cover two-thirds of the cost of this highway through Central America. The Foreign Minister, moreover, referring to a provision of the US-Panamanian General Relations Agreement of 1942, pointed out that the US had not yet bridged the Canal at Balboa or constructed a tunnel, as agreed. His Ministry, therefore, was studying the advisability of proposing that the US assume the remaining one-third of the highway costs in Panama, against release from its obligation regarding a bridge or tunnel.

Actually, the bill for US participation in this construction has not yet been introduced in Congress. The proposed bill, moreover, if it is passed, would provide only \$8 million annually for aid to all Central American countries. This would fall far short of the funds needed for even two-thirds of the concrete highway in Panama, which will cost an estimated \$41 million.

In spite of the foregoing circumstances, Panama addressed a note to the US in July, 1949, proposing that the US complete the Inter-American Highway as a concrete road from Panama City to the Costa Rican

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CONFIDENTIAL

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-5-

border, as a substitute for the bridge-tunnel project (delayed by indecision over whether to add a third set of locks, or to construct a sea-level canal).

An existing road from Panama City detours a southward extension of the Cordilleran highlands by running southwest to Rio Hato, and then turns north to Penonome. The Panamanian note asks that the new road run directly west from Panama City to Penonome, through the highland area. The existing highway is paved with concrete from Panama City to Rio Hato, with bitumen from Rio Hato to Santiago, has an all-weather surface of crushed stone from Santiago to about 15 miles from the Costa Rican border, but is impassable from that point to the border.

Completion of the segment of the Inter-American Highway from Panama City to the Costa Rican border would not permit through automobile traffic from the US to the Panama Canal, because the highway would still have three gaps (one of which is almost 75 miles long), which are impassable either because there is no route at all, or only a trail. These gaps are situated: (1) at the Mexico-Guatemala boundary; (2) at the Costa Rica-Panama boundary, and (3) in a section north of Managua, Nicaragua. Many segments of the highway are trafficable only in dry weather, particularly in southern Mexico, northern Guatemala, and from southern Honduras to northern Panama.

When completed, the Inter-American Highway will have strategic importance for the movement of troops and supplies. It will also permit cheaper transportation of certain goods to markets within and among some of the Central American countries, and will attract the US tourist trade. (SECRET)

3. In spite of the recent Cabinet action in Paris, approving French participation in the construction of an eight-mile highway tunnel under Mont Blanc, it appears almost certain that the tunnel, if constructed, actually will be located under the Grand St. Bernard pass on the Italian-Swiss border. French-Swiss rivalry, however, increases the chances that one of the projects will be realized, and that trans-Alpine road connections west of the Brenner pass, which are interrupted in the winter, will be greatly improved by a first class all-weather highway.

CONFIDENTIAL

-6-

At the request of the interested Italian authorities, the US ECE delegate at Geneva and ECA representatives at Rome and Paris made preliminary studies of Italian, Swiss, and French plans for motor tunnels through the Alps. Recommending the construction of a tunnel under the Grand St. Bernard Pass as the most feasible project, they pointed out that suitable road construction would be required in Switzerland in conjunction with this choice. When three particular bottlenecks in Switzerland were called to the attention of the highway authorities of the Swiss Cantons of Valais and Vaud, the Swiss authorities developed detailed plans and actually appropriated the funds necessary to correct the Swiss access route to the proposed tunnel. The heavily populated areas of Montreux and Vevey, as well as towns in the Rhone Valley between Montreux and Martigny, will be by-passed. The road between Martigny and the proposed tunnel entrance above Bourg-St. Pierre, furthermore, is now being improved to provide an all-weather route of class one European specifications, with all towns on the route likewise by-passed.

The Swiss entrance to the tunnel is to be at an altitude of 1770 meters, about one kilometer below Cantine de Froz. For five years there has been no interruption to the daily passage of the postal bus up to Bourg-St. Pierre (1640 meters). The proposed tunnel entrance on the Swiss side will be 3.5 kilometers beyond and 130 meters above this village. On the Italian side the entrance will be located 1.5 kilometers above San Gheny at an altitude of 1740 meters. The total length of the tunnel will be 8 kilometers, with a gradient of one per cent on either side of the highest point. The roadway is to be 7.5 meters wide, with .90 meter banquettes.

Preliminary to construction of the Grand St. Bernard tunnel, Italy and Switzerland must reach agreement on financing the project. The agreement may call for each country to provide a share of the construction and operational costs, or a long-term lease may be made for private construction and operation. Officials of the Swiss Cantons of Vaud and Valais state that tentative approval of the tunnel project has been received from several branches of the Central Government at Berne and that they expect complete approval soon. On the other hand, Geneva would benefit more from the French project, and political pressure from that quarter is opposing the St. Bernard Tunnel. Fear of political repercussions, therefore, may delay the final Berne action.

Completion of a tunnel in the Mont Blanc-St. Bernard area would be advantageous to both Italy and countries to the north of the tunnel. Rapid distribution of perishable food stuffs from the Piedmonts area would be facilitated, and tourist traffic increased. The tunnel will also have strategic importance, although there are no indications that

~~CONFIDENTIAL~~

-7-

any of the countries concerned have taken any special measures to protect themselves against the possible seizure of the tunnel in an emergency.

The advantage of the St. Bernard Tunnel over the Mont Blanc project lies in the fact that traffic could proceed northward from Lausanne without any serious mountain barriers, whereas the area to the west and north of Mont Blanc is more mountainous. The Italian approach road to Mt. Blanc, however, is not yet available.

While the estimates for the Mt. Blanc project are not final, it is believed that the tunnel would cost France \$17,500,000 and Italy \$29,250,000. The Italian approach road, furthermore, would cost \$25,000,000. The total cost of the Grand St. Bernard Tunnel, by contrast, is estimated at only \$15,000,000, consisting principally of labor, which Italy is believed well able to provide. (CONFIDENTIAL)

CIVIL AVIATION

4. Despite a continued aggressive civil aviation policy, Czechoslovakia is making no headway in countering Western measures to prevent expansion of its foreign air service to the Near East. Although the Czechoslovaks have not yet been able to restore scheduled air service to the Near East following Greek cancellation of air rights at Athens (See TC Weekly No. 69), the Czechoslovak airline, CSA, has recently advertised in Israel a special round-trip flight from Prague to Lydda via Rome and Brindisi. The flight, according to the CSA office in Tel Aviv, will be undertaken by "our sister company, Svitlet". (The

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[REDACTED] A former executive of Bata, moreover, has recently been appointed Director General of CSA.) Another indication of Czechoslovak interest in operations to the Near East is a report from Syria that CSA is seeking permission to operate survey flights to Damascus preparatory to establishing regular services from Prague.

The foregoing Czechoslovak activity in the Near East may be premature, in view of previous Italian assurances to the US that authorization for all onward Czechoslovak flights from Italy to the Near East would be categorically denied. With transit rights denied in both Italy and Greece, and no prospect that Turkey would grant such rights for Czechoslovak services to the Near East, restoration of

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-8-

such service to Israel or beyond appears to be dependent upon acquisition of long-range aircraft, presumably four-engine types. Continued Czechoslovak efforts to obtain such equipment are suggested by a report that dollar exchange has been officially allocated for this purpose by the Czechoslovak Government.

Meanwhile, the Czechoslovak press and radio have engaged in unprecedented attacks upon the International Civil Aviation Organization (ICAO) as "an instrument for American domination of the Atlantic Ocean, being fully in the services of the aggressive Atlantic Pact." These attacks may foreshadow future Czechoslovak exploitation of ICAO as a propaganda forum for attack upon US civil aviation policies. It is unlikely, however, that Czechoslovakia will withdraw from ICAO in the near future. As a signatory to various ICAO agreements, Czechoslovakia enjoys, with certain limitations, virtually automatic transit landing rights in the territory of other ICAO nations. ICAO membership, moreover, is a distinct advantage in the negotiation and implementation of civil air agreements with Western nations. Consequently, the loss of these advantages would immeasurably increase the present difficulties encountered by Czechoslovakia in pursuit of its aggressive civil aviation policies. (SECRET)

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~~CONFIDENTIAL~~

-9-

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6. The Chinese Communists' desire to obtain air access to Hong Kong from Shanghai has been evident in numerous recent talks with foreign airline representatives. The determination of the Communists to control the operation of re-established services through mandatory permits, inspections and clearances has also become clear. Although various plans have been advanced by both British and American commercial interests (See TG Weekly No. 72), results have been inconclusive.

The US, foreseeing that Communist controls which would be instituted as part of any temporary air agreement would mainly serve Communist transport needs at the expense of foreign interests, has halted further participation in discussions by US airline representatives. Despite this move, the Shanghai Communists have come forward with a new long-range proposal for a "Peoples Aviation Company of China" to be operated under contract by the US Northwest Airlines. The proposal displays an eagerness to obtain American financial and technical assistance in furtherance of Communist aims for Chinese foreign and domestic civil aviation. The company, which would consist of private shareholders limited to Communist Party members, would act in an interim capacity until the formation of a Central Communist Government.

In view of: (1) the recent reminder served on the US Embassy by the Nationalist Government that it intends to enforce the blockade of Communist China, if necessary by aerial interception; and (2) the Communist practice of applying arbitrary controls on the movement of foreign nationals, the restoration of normal air services in Communist-held China by US airlines appears remote. On the other hand, it is conceivable that the British may seek to capitalize on the Communist desire for trading outlets, by offering certain air services in return for Communist guarantees concerning the security of Hong Kong. (SECRET)